

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company for Authority Pursuant to Public Utilities Code Section 851 to Sell Cushion Gas in its Aliso Canyon and La Goleta Storage Fields. (U 904 G)

Application 01-04-007
(Filed April 9, 2001)

**OPINION REGARDING THE SALE OF THE
RECLASSIFIED CUSHION GAS****I. Summary**

In this decision, we consider what should be done with the 14 billion cubic feet (Bcf) of natural gas in the storage fields owned by Southern California Gas Company (SoCalGas) at its Aliso Canyon and La Goleta sites. Previously, in Decision (D.) 01-06-086, the Commission authorized SoCalGas to perform the well drilling and associated work that would allow SoCalGas to free up and reclassify the 14 Bcf of cushion gas as working gas available for sale. D.01-06-086 prohibits SoCalGas from selling the reclassified cushion gas until the Commission directs SoCalGas to do so on the terms and conditions specified in a future Commission decision. This same decision also authorized SoCalGas to recover the book cost of the gas and the cost of the well work needed to reclassify the cushion gas.

Today's decision directs SoCalGas to transfer the entire 14 Bcf of reclassified cushion gas at the two storage fields to SoCalGas' core portfolio at an interim floor price of 31 cents per Mcf (thousand cubic feet), which represents the \$4.4 million book value of the 14 Bcf of gas. This interim price may be adjusted

upwards after hearings are held in Phase 2 of this proceeding. Phase 2 will determine whether the price that core customers should have to pay for the 14 Bcf of gas should be at the original book cost or if the evidentiary record developed in Phase 2 warrants that the price should be adjusted upwards. The other ratemaking issues described in D.01-06-086 shall also be addressed in Phase 2 of this proceeding.

II. Background

SoCalGas filed its application with the Commission on April 9, 2001. The application described how SoCalGas planned to make design changes at its Aliso Canyon and La Goleta underground gas storage fields through a combination of the drilling of new wells and reworking several existing wells. According to the application, the redesign of these storage fields will allow SoCalGas to provide the same level of current deliverability with less cushion gas at both fields. SoCalGas estimates that 14 Bcf of cushion gas will no longer be needed, which can then be reclassified and sold on the open market.

D.01-06-086 authorized SoCalGas to perform the redesign work on the two storage fields, and after the well drilling and associated work is completed, SoCalGas is authorized to reclassify 7 Bcf of cushion gas at Aliso Canyon and 7 Bcf of cushion gas at La Goleta as working gas available for sale. The decision also authorized SoCalGas to sell the reclassified gas “on the terms and conditions specified in a future Commission decision.” (D.01-06-086, p. 37.) The decision also stated that there would be a second phase of this proceeding to address all of the remaining ratemaking issues, “including the allocation of the anticipated net gain on sale of the reclassified cushion gas, the anticipated reduction in prospective operating costs, and the allocation of benefits among customer classes....” (D.01-06-086, p. 32.)

Ordering paragraph 2 of D.01-06-086 solicited opening and reply comments on whether any restrictions should be imposed on SoCalGas with respect to the sale of the 14 Bcf of reclassified cushion gas, the advantages or disadvantages of the various proposals to restrict the sale of the reclassified cushion gas, and whether Phase 2 of this proceeding should be handled in SoCalGas' Biennial Cost Allocation Proceeding (BCAP).¹

Opening comments were filed by SoCalGas, the Office of Ratepayer Advocates (ORA), and the Southern California Generation Coalition (SCGC). Duke Energy North America and Duke Energy Trading and Marketing (collectively "Duke Energy") also filed joint opening comments. Reply comments were filed by SoCalGas, ORA, and The Utility Reform Network (TURN).

Pursuant to Ordering Paragraph 1.g. of D.01-06-086, SoCalGas has filed its monthly reports to keep the Commission informed about the status of the drilling work, and to provide a summary of the costs incurred to date.

III. Position of the Parties

A. SoCalGas

SoCalGas proposes that the 14 Bcf of reclassified cushion gas be sold in a one-round sealed bid process, with all bids made in increments of 1 Bcf. A bidder would be allowed to submit up to 14 bids of 1 Bcf increments, and could bid different prices for different 1 Bcf increments. SoCalGas proposes to award the 14 Bcf to the highest 14 increments bid, and each of 14 increments sold would

¹ SoCalGas filed its BCAP application (A.01-09-024) with the Commission on September 21, 2001.

be at the price bid for the individual increment. SoCalGas does not propose to put any limit on the amount of the 14 Bcf that could be won by a single bidder. At the time SoCalGas submitted its application, SoCalGas proposed that the gas become the property of the winning bidders as of November 1, 2001, and that the new owners would be required to withdraw the gas from storage within five months, i.e., by March 31, 2002, unless the winning bidder(s) obtained rights to store the gas beyond that date.²

SoCalGas proposes to allow any creditworthy person or entity to submit a bid to purchase gas. In order to submit a bid, SoCalGas would require prospective bidders to pre-qualify their creditworthiness for an amount at least as great as the amount (price times volume) for which they submit a bid. SoCalGas would allow its Gas Acquisition department to participate in the bidding process, and states that the Gas Acquisition department will not be involved in the administration of the sale, or be privy to any information relevant to the sale that has not been made available to other bidders.

SoCalGas states that the only restriction that should be imposed on the sale of the reclassified cushion gas is to set the minimum quantity bid low enough so that it would be feasible and potentially economical for a large number of entities to bid for the reclassified cushion gas. SoCalGas believes that

² In the report dated December 3, 2001, SoCalGas states that if the Commission authorizes the sale of the gas at the December 11, 2001 meeting, SoCalGas expects that it will be able to sell the gas for withdrawal beginning January 1, 2002, and that the gas withdrawal would have to be completed by May 31, 2002. If the Commission does not approve the sale of the gas until after December 11, 2001, SoCalGas expects to ask the Commission to allow a withdrawal period of longer than five months.

the 1 Bcf minimum quantity bid satisfies this goal since the noncore throughput on its system exceeds 600 Bcf.

SoCalGas states that it does not believe that the sale of the gas will create the potential for an increase in market power by any one person. The 14 Bcf represents less than 1.5% of the total SoCalGas system demand of approximately 1 Tcf per year. SoCalGas states that “[n]o matter how this gas is sold, it cannot reduce competition in the current market and is virtually certain to increase competition.” (SoCalGas Opening Comments, p. 3.)

SoCalGas recommends that the Phase 2 issues remain in this proceeding, and that the Phase 2 issues should not be considered in SoCalGas’ BCAP. SoCalGas contends that consolidating the Phase 2 issues into the BCAP will unnecessarily delay consideration of how to allocate the net proceeds because the BCAP will probably not be decided by the Commission until late 2002.³ By resolving the Phase 2 issues in this proceeding, SoCalGas states that ratepayers’ rates will be reduced sooner.

In addition, SoCalGas does not believe that there is a sufficient overlap of issues pertaining to the allocation of the benefits of the reclassified cushion gas with the issues to be addressed in the BCAP. The Phase 2 allocation issues revolve around an assessment of past risks and rewards arising out of SoCalGas’ ownership of the cushion gas before its sale, rather than the BCAP issues of forward-looking allocations of costs between customer classes.

³ SoCalGas’ BCAP application proposes that a Commission decision be adopted on October 21, 2002.

SoCalGas notes that it is within the Commission's discretion to decide whether consolidation of the Phase 2 issues with the BCAP is appropriate, and that SoCalGas does not believe that such a consolidation would prejudice its rights or those of any other party. SoCalGas states that it will cooperate regardless of whether the Phase 2 issues are handled in this proceeding or in the BCAP.

SoCalGas is opposed to ORA's proposal that 70% of the reclassified cushion gas (9.8 Bcf) be allocated to core customers at book cost, and that the remaining 4.2 Bcf be sold by SoCalGas pursuant to a competitive bidding process. From the sale proceeds, ORA proposes that SoCalGas recover the book value of the gas and the cost of the well work. Under ORA's proposal, any proceeds in excess of this amount would be allocated between SoCalGas' shareholders and noncore customers.

SoCalGas contends that ORA's proposal is an improper attempt to determine the allocation of the gain on sale prior to the Phase 2 issues being heard. SoCalGas states that D.01-06-086 specifically set aside a second phase to consider these kinds of issues. Specifying the transfer price of 70% of the 14 Bcf of reclassified cushion gas at book cost, and recovery of the well redesign costs from the sale proceeds of the 4.2 Bcf, would clearly prejudice the ratemaking treatment in advance of any Phase 2 proceeding.

SoCalGas acknowledges in its reply comments that the Commission could order some or all of the 14 Bcf transferred to the core portfolio, instead of selling the gas on the open market, and that the Commission could determine in Phase 2 the price the core should pay for the gas, and how the book cost of the gas and the cost of the well work should be allocated. However, SoCalGas

contends that such an approach has no value over the sale of the reclassified cushion gas on the open market.

SoCalGas contends that its Gas Acquisition department “has already made excellent progress to date toward achieving its November 1 winter-opening target storage inventory level.” (SoCalGas Reply Comments, p. 5.) Thus, there is no basis for the Commission to conclude that SoCalGas will not achieve its storage target if it is not allocated some of the 14 Bcf of gas. In addition, if the Commission does not issue a decision until the end of September 2001, the Gas Acquisition department must continue to plan and inject gas for the benefit of the core portfolio under the assumption that the reclassified cushion gas will not be designated for the core. By the end of September, the start of the winter season will be only one month away, and core storage will be very close to its winter-beginning target. SoCalGas contends that this gas is likely to be of more value to other market participants who have not been as diligent in storing gas.

SoCalGas contends that selling the gas on the open market will provide reliability benefits to the system as a whole if the buyer(s) take title to the gas on November 1, 2001, the start of the high-demand winter season. Since the gas is already in storage, the gas can be delivered without the need to move the gas through the interstate or backbone intrastate pipelines. In addition, under SoCalGas’ proposal, its Gas Acquisition department could also bid for some or all of the 14 Bcf of gas. By allowing the gas to be sold on the open market, SoCalGas believes that those who value the gas more, will pay a higher value for the gas. The end result is that there will be a greater amount to be allocated in Phase 2.

SoCalGas also points out that ORA has neither alleged nor shown that core customers will receive a greater net economic benefit from transferring the gas to the core versus a sale of the gas on the open market.

SoCalGas states in its reply comments that no evidentiary hearings are needed at this time because the allocation on the gain on sale and other economic benefits of the project are to be considered in Phase 2. If the Commission were to consider ORA's allocation proposals, then SoCalGas states that evidentiary hearings would be required before any decision was issued.

B. ORA

ORA proposes that 70% of the reclassified cushion gas (9.8 Bcf) be allocated at book cost to core customers, and that the remaining balance of 4.2 Bcf be sold into the market using a competitive sealed bid procedure.

ORA states that allocating the 9.8 Bcf to core ratepayers over the five month period from November 2001 through March 2002 at 1.96 Bcf per month will contribute to the core storage target of 70 Bcf of inventory. The 70% allocation to the core, or 9.8 Bcf, is analogous to the historical cost allocation to core customers of the revenue requirement associated with gas storage facilities. ORA contends that such an allocation will reduce the overall core gas costs for this coming winter, and reduce the amount of expensive gas that must be purchased at the California border during the balance of the injection season and this coming winter. By allocating this gas to core customers at book value, core customers will get a significant amount of gas supply at a low cost, and avoid the loss in value if the gas was sold into the market and the after-tax proceeds were then passed on to core customers. ORA asserts that the after-tax proceeds would only allow core customers to purchase a fraction of the 9.8 Bcf of gas.

ORA also contends that its proposal for core customers will help mitigate the high cost of gas that was injected into storage by SoCalGas during the early months of the current injection season when California border prices were high. ORA asserts that noncore customers benefited from the early season core storage injections by enabling noncore customers to have sufficient gas delivered to meet their peak summer demand.

As for the remaining 4.2 Bcf of gas, ORA states that SoCalGas should be allowed to recover from the sale proceeds the book cost of the cushion gas plus the capital cost of the improvements before the net proceeds are allocated between SoCalGas and noncore customers. ORA estimates that the gross proceeds from the sale of the 4.2 Bcf of gas could range between \$17 million (assuming a \$4.00 per Mcf border price) and \$42 million (assuming a \$10 per Mcf border price). If the gas sale proceeds are not enough to cover the cost of the capital improvements, which is estimated to be about \$16 million, ORA states that the balance should then be recovered from core ratepayers.

ORA states that its approach is reasonable because both SoCalGas and noncore customers will benefit. SoCalGas will benefit from any incremental noncore throughput that is associated with the sale of the 4.2 Bcf of gas. SoCalGas will also have additional storage inventory, injection capacity, and withdrawal capacity to market. In addition, according to SoCalGas' testimony in its application, operating costs will be lower, which should improve SoCalGas' net earnings. ORA asserts that noncore customers will benefit by having access to this incremental gas supply, and by having incremental storage capacity available in future years.

ORA also notes that the introduction of the reclassified cushion gas into the market will serve as an additional source of flowing supply, help alleviate

any potential gas curtailment, enhance system integrity, increase storage inventory on the system, and moderate gas prices at the California border.

ORA acknowledges that under its proposal, one could argue that SoCalGas will unfairly forego huge profits, and that core customers will derive the bulk of the benefits. ORA points out, however, that SoCalGas will not realize any loss on its original investment because core customers have contributed a return on SoCalGas' investment in cushion gas since 1943 for La Goleta, and since 1972 for Aliso Canyon. ORA also states that the benefits to affected parties will be fairly balanced because the average cost of gas stored for core customers will be reduced, while shareholders and noncore customers will share in the sale proceeds, along with new storage services.

ORA is opposed to the idea of giving generators or qualifying facilities a priority for the reclassified cushion gas unless a commitment is made that the gas will be used to generate electricity that will be sold to California ratepayers at reasonable prices. ORA notes that the generators and qualifying facilities have already benefited by the early injection of core gas, which provided a more flexible and reliable system during the peak summer months of electric generation demand.

ORA states that if its proposal is adopted, there is no need for a second phase of this proceeding to address the ratemaking and allocation issues. Under ORA's proposal, a majority of the reclassified cushion gas would be allocated to core customers at cost, and the gain from the sale of the remaining gas would be shared between non-core customers and SoCalGas' shareholders.

C. SCGC

SCGC supports the proposal of SoCalGas to sell the reclassified cushion gas at market prices without any restrictions, and to address the ratemaking

issues in a second phase of this proceeding. SCGC states that such a sale will presumably maximize the gross proceeds and the net gain on sale.

SCGC states that if the proposal of ORA and TURN to assign a portion of the reclassified cushion gas to the core at book cost is adopted, this will substantially reduce the net proceeds that SoCalGas proposes to allocate among customers in Phase 2 of the proceeding. The proposal of ORA and TURN would also eliminate the need for a second phase of this proceeding since core customers would receive a substantial portion of the economic benefit. SCGC states that the Commission should reject this attempt by ORA and TURN.

SCGC believes that the allocation of the net benefits derived from the sale of the reclassified cushion gas should be consolidated and considered in SoCalGas' BCAP, rather than having Phase 2 considered in this proceeding.

D. Duke Energy

In the absence of a shortage of natural gas,⁴ Duke Energy believes that the best use of the reclassified cushion gas is to sell it to the highest bidder to maximize the revenues from the sale of the gas. Thus, no preference should be given to electric generators and qualifying facilities, nor should the Commission reserve this reclassified cushion gas for the use of core customers, or to sell it to the core at book value. Duke Energy asserts that selling the gas on the open market will provide the Commission with maximum flexibility to exercise its judgment on how the revenues received for the gas should be allocated.

⁴ Duke Energy states that SoCalGas does not expect any curtailments this winter due to a shortage of natural gas, and that San Diego Gas & Electric Company has also stated that it does not expect that a shortage of natural gas will create any curtailments on its system this winter.

By selling the gas into the market, SoCalGas claims that this will increase the supply of gas in the intrastate Southern California market. Duke Energy contends that this will help ensure that the gas supply remains adequate, and it will put downward pressure on gas prices when prices tend to be at their highest. Duke Energy also points out that selling the gas to the highest bidder should mean that the gas will be put to its most valuable use, which should increase overall economic efficiency.

Duke Energy does not believe that evidentiary hearings are necessary because any restrictions about the sale of the reclassified cushion gas raises policy issues that can be argued in comments and supplemental briefs.

Duke Energy believes that the issues about the allocation of the proceeds from the sale of the reclassified cushion gas should be addressed as part of SoCalGas' next BCAP proceeding, when the Commission considers the other issues and concerns that affect the allocation of utility revenues. Duke Energy contends that a separate phase in this proceeding to consider the allocation of the sale proceeds would consume time and resources, and would overlap with the schedule for the BCAP.

E. TURN

TURN supports ORA's position that 70% of the reclassified cushion gas be allocated to core customers at book value. TURN agrees with ORA that core customers have paid additional costs to inject gas since March of 2001, and that such storage injections benefit all customers since they free up flowing supplies for the coming winter.

TURN notes that SoCalGas and SDG&E have proposed to consolidate their core procurement portfolios which would result in additional interstate pipeline capacity for this combined portfolio. If this proposal is adopted by the

Commission, an additional 90 MMcfd of flowing gas for core customers would be made available, and would help ensure that additional costs are not imposed on core ratepayers. Although TURN and ORA support this proposal, it is still unknown whether such a proposal will be adopted.

If the Commission does not adopt ORA's proposal, TURN does not oppose SoCalGas' recommendation to sell the reclassified cushion gas through a sealed bid process for 14 one-Bcf increments with no limit on the purchase amount. TURN is opposed to giving any priority to generators of qualifying facilities because such a priority would enrich the generators.

TURN states that if the Commission does not adopt ORA's proposal, the cost allocation and ratemaking issues should be addressed in Phase 2 of this proceeding, rather than in SoCalGas' BCAP. TURN contends that past Commission proceedings, judicial economy, and timeliness all support resolving the Phase 2 issues in this proceeding. In addition, the profits from the sale of the reclassified gas are unrelated to the methodologies used in the BCAP to functionalize and allocate costs between system components and customer classes.

IV. Discussion

In D.01-06-086, the Commission authorized SoCalGas to sell the 14 Bcf of reclassified cushion gas upon the terms and conditions specified in a future Commission decision. This same decision also authorized SocCalGas to recover the well work costs associated with reclassifying the cushion gas. D.01-06-086 invited the parties to submit additional comments as to whom the reclassified cushion gas should be sold to. The parties who commented have suggested two options. The first proposal is to allow SoCalGas to sell the 14 Bcf on the open market using a sealed bid procedure. The second proposal is to allocate 70% of

the 14 Bcf to core customers at book value, and to sell the remaining 30% on the open market. The proceeds from the remaining 30% would be used to reimburse SoCalGas for the book cost of the cushion gas and for the cost of the well redesign work. Any remaining net proceeds would be divided between SoCalGas' shareholders and noncore customers. A third option, which none of the commenting parties support, is to give electric generators and qualifying facilities a preference over others to purchase the gas. A fourth option, which we adopt in this decision, is to allocate the entire 14 Bcf of reclassified cushion gas to the core at a minimum floor price of book value, subject to a possible upward adjustment in Phase 2 of this proceeding.

SoCalGas expressed the need for an evidentiary hearing regarding the disposition of the reclassified cushion gas if ORA's proposal was adopted in its entirety. No other parties who commented believe that evidentiary hearings are needed. As discussed below, since we are only adopting an interim floor price for the reclassified gas, which is subject to adjustment in Phase 2, and because we are not addressing how any remaining net proceeds or deficits should be allocated, no hearings are needed in this phase of the proceeding.

In order for the Commission to decide under what terms and conditions the reclassified cushion gas should be sold, each proposal's advantages and disadvantages should be considered. In addition, the Commission should consider which proposal is more appropriate in light of other policy concerns and current market conditions.

None of the commenting parties support the idea of giving electric generators and qualifying facilities a preference over others to purchase the 14 Bcf of gas. Both ORA and TURN argue that these types of gas purchasers should not be given a preference because of a fear that the generators and

qualifying facilities will raise electricity rates to unreasonable levels at the expense of ratepayers. By selling the gas into the open market, Duke Energy believes that these generators will have a fair opportunity to bid on this gas, and that such bidding will reflect the economic value of the gas to the purchasers.

SoCalGas' proposal to sell the 14 Bcf in the open market through a sealed bid procedure has the advantage of maximizing the proceeds from the sale of the gas. Any creditworthy purchaser could bid on part or all of the supply. The bid prices for the 1 Bcf increments are likely to reflect the market demand and availability of gas during the winter. The sale of this gas is also likely to have a temporary effect of lowering gas prices.

The disadvantage of selling the gas in the open market is that core customers will have to compete with other prospective gas purchasers for this supply. Even though SoCalGas' core gas storage inventories are starting with the winter-opening storage target of 70 Bcf, additional gas supply will be needed by core customers during the winter season. Under ORA's proposal, 70% of the gas would be allocated to the core at book value. However, if core customers have to bid for this supply of gas, or have to purchase additional supplies elsewhere, the cost of the gas will be substantially higher.

The advantage of ORA's proposal is that core customers will be assured of an additional 9.8 Bcf of gas during the coming winter season at a low cost. This will help to lower the average cost of gas for core customers during the winter season.

The disadvantage of ORA's proposal is that the maximum value from the sale of the reclassified cushion gas will not be realized because the reclassified cushion gas would be transferred to the core at book value. Also, if ORA's

proposed allocations are adopted, this will effectively determine the Phase 2 issues and eliminate the need for a second phase.

Other considerations the Commission needs to take into account are the impact of the well redesign, and whether noncore customers received any benefits from the core storing gas during the injection season.

The well redesign work will open up additional storage for core and noncore customers in the future. The well work will also free up 14 Bcf of gas which is already in storage and which can be used during the winter. The availability of this gas will also free up some of the system capacity of the gas pipelines during the winter season.⁵

As for core storage, noncore customers undoubtedly benefit from core storage because additional capacity is made available during the winter season. By putting gas into storage during the injection season, core customers are assured of gas supplies during the heavy demand for gas during the winter by noncore customers. Although this is a benefit to noncore customers, this is a natural result of the core storage program. If gas is not procured for the core during the injection season, this would cause problems for all gas consumers during the winter. Thus, this benefit alone should not be an overriding consideration.

There are also public policy reasons to consider. One such policy is to procure gas supplies for core customers at reasonable prices. In order to have adequate supplies on hand to meet the core's winter demand, SoCalGas had to

⁵ In D.01-06-086, at pages 24 to 25, the Commission noted that the availability of the 14 Bcf of gas would "temporarily increase SoCalGas' capacity to deliver gas to its customers by about 90 MMcf per day without having to utilize the interstate pipelines."

purchase high priced gas at the beginning of the injection season for the 2001-2002 winter season. By injecting gas into storage for the core, this freed up pipeline capacity during the summer and for the winter for those customers who did not store any gas. Thus, by allocating some or all of the reclassified cushion gas to the core, this will help offset the high cost gas and result in a lower average cost of gas for the core.

Another policy reason to consider in deciding to whom the gas should be made available to is that SoCalGas has earned a rate of return on this cushion gas in the past, as noted in D.01-06-086.

The issue that confronts us in this proceeding is to determine how to make the best use of the 14 Bcf of gas. After weighing the advantages and disadvantages of each proposal, and the policy concerns, the best outcome is to authorize SoCalGas to transfer 100% of the reclassified cushion gas, 14 Bcf, to SoCalGas' core customers. The transfer price will be set at the floor price of 31 cents per Mcf, which represents the book value of the reclassified cushion gas. The final sales price that the core will pay for this gas may be adjusted upwards depending on the evidentiary record developed in Phase 2 of this proceeding. This arrangement will ensure that core customers have adequate gas supplies for the winter at a price to be decided in Phase 2, and will help offset the high priced gas that was purchased on behalf of the core at the beginning of the injection season. In addition, by making this gas available to core customers, this will free up additional system capacity during the winter season for SoCalGas' noncore customers.

In D.01-06-086, we authorized SoCalGas to recover the costs associated with the well redesign work and the book cost of the reclassified cushion gas from the sale proceeds of the gas. We also deferred to a second phase of this

proceeding “all other ratemaking issues, including the allocation of the anticipated net gain on sale of the reclassified cushion gas, the anticipated reduction in prospective operating costs, and the allocation of benefits among customer classes....” (D.01-06-086, p. 32.)

Since we have previously decided that a second phase will be held to address the other ratemaking issues, the gas to be transferred to the core shall be set at a floor price of book value on an interim basis only. The final determination of the price to be paid by the core for the 14 Bcf of reclassified cushion gas, as well as what should be done with any remaining net proceeds, if any, will be decided in the second phase of this proceeding in conjunction with the other Phase 2 issues identified in D.01-06-086.

Accordingly, SoCalGas is directed to do the following:

1. SoCalGas shall transfer all of the 14 Bcf of the reclassified cushion gas to SoCalGas’ core portfolio at an interim floor price of 31 cents per MCF, the book value of the reclassified cushion gas, subject to a possible later upward adjustment after an evidentiary record has been developed in Phase 2 of this proceeding.
2. SoCalGas shall track, in the previously authorized memorandum account, the difference between the floor price of 31 cents per Mcf and the final price of the gas that will be decided by the Commission in Phase 2 of this proceeding.
3. Within five days of the transfer of 100% of the reclassified cushion gas to the core portfolio, SoCalGas shall file and serve a notice describing the date upon which this took place.

Based on the comments, the Phase 2 issues will be considered in this proceeding rather than in SoCalGas’ BCAP. The issues regarding the price of the

gas sold to the core, the anticipated reduction in operating costs, and the allocation of benefits, are better suited for resolution in this proceeding than in the BCAP. A ruling with regard to the Phase 2 issues will be released after the reclassified cushion gas has been transferred in accordance with the above discussion.

V. Comments on Draft Decision

The draft decision was electronically distributed and mailed to the service list on December 6, 2001. In accordance with Rule 77.7(f)(9), the time for filing comments to the draft decision was shortened to December 10, 2001. Comments to the draft decision were filed by SoCalGas and by Duke Energy. Those comments have been considered and appropriate changes have been made to the decision.

Findings of Fact

1. D.01-06-086 authorized SoCalGas to perform the well design work that would allow it to free up and reclassify the 14 Bcf of cushion gas as working gas available for sale.
2. D.01-06-086 authorized SoCalGas to recover the cost of the well work performed in order to reclassify the cushion gas.
3. D.01-06-086 prohibits SoCalGas from selling the reclassified cushion gas until the Commission directs it to do so on the terms and conditions specified in a Commission decision.
4. D.01-06-086 stated that there would be a second phase of this proceeding to address all of the remaining ratemaking issues, including the allocation of the anticipated net gain on sale, the anticipated reduction in operating costs, and the allocation of benefits among customer classes.

5. D.01-06-086 solicited opening and reply comments on whether any restrictions should be imposed on SoCalGas with respect to the sale of the 14 Bcf of reclassified cushion gas, and whether Phase 2 of this proceeding should be handled in SoCalGas' BCAP.

6. SoCalGas proposes that the 14 Bcf of gas be sold in a one-round sealed bid process, with all bids made in increments of 1 Bcf.

7. ORA proposes that 70% of the reclassified cushion gas (9.8 Bcf) be allocated at book cost to core customers, and that the remaining balance of 4.2 Bcf be sold using a competitive sealed bid procedure.

8. ORA also proposes that SoCalGas be allowed to recover from the sale proceeds of the 4.2 Bcf the book cost of the cushion gas plus the capital cost of the improvements, and that the remaining net proceeds be allocated between SoCalGas' shareholders and noncore customers.

9. None of the commenting parties supported the idea of giving electric generators and qualifying facilities a preference over others to purchase the 14 Bcf of gas.

10. No hearings are needed.

11. The proposals of SoCalGas and ORA both have their own advantages and disadvantages.

12. Two public policy reasons to consider are procuring gas supplies for core customers at reasonable prices, and whether SoCalGas has earned a rate of return on this cushion gas in the past.

13. Directing SoCalGas to transfer all of the reclassified cushion gas, 14 Bcf, to its core portfolio at an interim floor price set at book value will ensure that core customers have adequate gas supplies for the winter, and will free up additional system capacity during the winter season for noncore customers.

14. All of the Phase 2 issues will be addressed in this proceeding since the issues are better suited for resolution in this proceeding than in the BCAP.

Conclusions of Law

1. In order to decide under what terms and conditions the reclassified cushion gas should be sold, the Commission should consider each proposal's advantages and disadvantages, as well as other policy considerations and current market conditions.

2. SoCalGas should be directed to transfer 100% of the reclassified cushion gas, 14 Bcf, to SoCalGas' core portfolio at an interim floor price set at book value subject to a possible upward adjustment in Phase 2 of this proceeding.

3. The final determination of the price to be paid by the core for the 14 Bcf of reclassified cushion gas, as well as what should be done with any remaining net proceeds, if any, will be decided in Phase 2 of this proceeding in conjunction with the other Phase 2 issues.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is directed to transfer 100% of the reclassified cushion gas, 14 Bcf, at its Aliso Canyon and La Goleta storage facilities to SoCalGas' core portfolio at an interim floor price using the book value of the cushion gas (\$4.4 million or 31 cents per Mcf), subject to possible upward adjustment following the development of an evidentiary record in Phase 2 of this proceeding.

2. SoCalGas shall track in the previously authorized memorandum account the difference between the interim floor price of 31 cents per Mcf and the final price that will be decided by the Commission in Phase 2 of this proceeding.

3. Within five days of the transfer of 100% of the reclassified cushion gas to the core portfolio, SoCalGas shall file and serve a notice describing the date upon which this transfer took place.

4. The assigned Administrative Law Judge, in consultation with the assigned Commissioner, shall develop a schedule for the Phase 2 portion of this proceeding.

This order is effective today.

Dated _____, at San Francisco, California.